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SUBJECT: THE VENEZUELA-IRAN ECONOMIC RELATIONSHIP

REF: A. CARACAS 958  
[1](#)B. CARACAS 3257  
[1](#)C. CARACAS 3082

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This cable is sensitive but unclassified, please treat accordingly.

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Summary  
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[1](#)1. (SBU) In the last two years, Venezuela and Iran have signed at least 61 agreements, respective presidents have visited each other at least four times, and trade between both countries has increased exponentially in percentage terms. However, the number of joint ventures in operation on the ground is minimal, and bilateral trade as a percentage of each country's overall trade is very small. Based on available information, the only fully-operational joint venture is the VenIran tractor plant, which uses old technology and has low production levels. The Iranian population in Venezuela is relatively small compared to other muslim immigrant groups, but a recent memorandum of understanding between Iran Air and state-owned Conviasa Airlines may suggest both sides anticipate more two-way travel. The economic coziness has political motives, as in the end, the main link between Chavez and Ahmadinejad is a common hatred of the United States. End Summary.

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Bilateral Trade  
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[1](#)2. (SBU) Bilateral trade between Venezuela and Iran has

grown dramatically in the last two years, but still doesn't amount to much. SENIAT, the BRV's customs and tax agency, reported that from January to June 2006, Venezuela imported over USD 17 million worth of Iranian goods, largely vehicles and automotive parts, representing a 67 percent increase from 2005. This only represents 0.13 percent of Venezuela's overall imports. Conversely, Venezuela's exports to Iran for that same period accounted for merely USD 7 million, nearly all iron and steel products. Although this is a 2,800 percent increase from Venezuelan exports to Iran in 2005, it still represents only 0.1 percent of Iran's total imports.

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Agreements and more agreements  
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13. (SBU) Over the last two years, Iranian presidents (Khatami and Ahmadinejad) and President Chavez have visited each other at least four times. These meetings have resulted in 61 agreements in oil and gas, agriculture, aviation, defense, education, finance, health, housing, industry, infrastructure, media, mining, trade and tourism. Of these, only 10 call for the creation of joint ventures, the rest are memoranda of understanding (MOU), signed agreements, or letters of intent.

14. (SBU) Some examples of the agreements include: a joint venture between PDVSA and Petropars for oil exploration in the Orinoco Ayacucho block; construction of ammonia, fertilizer, methanol and polyethylene plants by Pequiven, the BRV's petrochemical company, and the Iranian company Sadra; a joint venture manufacturing assembly plant for dairy products, tomato sauce, and marmalade; student and teacher exchange programs between the Bolivarian University of

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Venezuela (UBV) and Iran's Free Islamic University; a feasibility study for a joint shipbuilding operation; and financial agreements between Venezuela's Industrial Bank and Iran's Export Development Bank. (Note: A complete listing of the agreements is available on the Embassy Caracas Classified Intranet, under "Chavez' Dollar Diplomacy," (Ref B). End Note).

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Projects on the ground  
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15. (SBU) Despite the large number of agreements, only a handful of projects are actually operating on Venezuelan soil. In Monagas State, the BRV reportedly began construction of the Cerro Azul cement plant in January 2006, and the company's president declared at the time that it would be operational by 2009. In June 2006, the BRV also invested in a joint-venture automotive assembly plant, called VenInsa, with Iranian company Aidco. It is set to begin operating fully in 2011, though an Iranian official told the media it would be as early as 2007. Other press reports have surfaced about an Iranian bicycle factory in Bolivar State, but information on whether it is even operational is unavailable.

16. (SBU) The only confirmed project that is currently operational is the VenIran tractor assembly plant (inaugurated March 2005 in Bolivar state), touting a production capacity of 14 completed tractors a day and three tractor models. The plant has approximately 70 employees, mostly Venezuelans with Iranian management. The owner of a large tractor import business in Venezuela visited the plant and said he'd be surprised if it turned out more than two tractors a week. The president of an agricultural chamber group said the factory produced only one type of tractor, and was importing finished tractors to make up the difference. Both noted the plant was using 30-year old technology with mainly Iranian parts, and did not anticipate much market demand due to lack of post-sale maintenance services. The

tractors are purchased by the government and sold to rural cooperatives that are beneficiaries of BRV land reforms. The company's president claimed in October 2006 that they were filling orders from Bolivia, Uruguay, Paraguay, Honduras, Trinidad and Cuba. VenIran plans to also assemble planters and combines.

¶7. (SBU) Other Iranian companies have also attempted to enter the Venezuelan market on their own, instead of under the wings of bilateral agreements. In early 2006, over 40 companies participated in an Iran-Venezuela Industrial Fair, and in September 2006, the BRV-sponsored Caracas Tourism Fair (FITCAR) hosted an Iranian booth in its international wing. The booth showcased Iranian tourist destinations, sold handicrafts, and an Air Iran representative was on hand to promote the company. (Note: the Iranian promotional signs were all in English. End Note).

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The Iranian community  
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¶8. (SBU) Though we don't know the exact numbers, the Iranian community in Venezuela is relatively small compared to other middle eastern immigrant groups, such as Lebanese and Syrian (about 250,000 total, Ref A). They are spread around a variety of sectors -- from a handful of Persian restaurants and rug dealerships, to oil, gas, and industry. There are

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some hints of cultural linkage, such as a statue of Venezuelan national hero Simon Bolivar in Teheran and one of Omar Khayyam in Caracas, or an Iran-Venezuela joint postage stamp album that came out in 2005. However, the linkage seems to be top-down, based on official visits and BRV agreements rather than as a signal of a large, active Iranian-Venezuelan population.

¶9. (SBU) Given the many upcoming bilateral projects, the number of Iranians in Venezuela could grow. The presumption may have been the motivation for a recent MOU between Iran Air and BRV-owned Conviasa Airlines for a code-share to operate Caracas-Teheran flights. However, Venezuelan civil aviation authorities stated in October 2006 that they had not received an official request to approve the route and the companies had not started any proceedings to begin operating flights (Ref C). This, in turn, may hint that the agreement was just a political statement.

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The enemy of my enemy is my friend  
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¶10. (SBU) The strongest link between Chavez and Ahmadinejad seems to be the common ideological hatred of the United States. William Lara, the BRV's Information Minister, said that "despite our geographic and cultural differences, we coincide in resisting against the audacity of the hawks, led by George Bush, who wish to oppress all the peoples of the world." The BRV continually highlights the similarities between the two countries, such as oil production (both are price hawks in OPEC), and a strong cooperative tradition. Official media, however, is careful to emphasize what Venezuela gains from deals with Iran (technology transfer and a world ally).

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Comment  
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¶11. (SBU) For now, the linkage between Iran and Venezuela is more about intentions than actual on-the-ground cooperation. The number of functioning projects is minimal, and the efficiency of at least one of these (VenIran tractor factory) is questionable. If the BRV brings bilateral agreements to fruition, more Iranians could be on their way to Venezuela.

Coziness with Iran has fueled nervousness for many Venezuelans in the opposition, who feel this is potentially the most reckless step in Chavez' love affair with the "axis of evil," given Iran's proven links to terrorism and defiance of the international community on nuclear matters. For Chavez sympathizers, working with Iran is just like dealing with any other country -- it is so accepted that some Chavez campaign signs even show him riding a bright red VenIran tractor. Despite abounding rumors that Iranian activities are masking uranium mining and enrichment, no information has surfaced to confirm this. The Iran-Venezuela relationship is one to watch, as the BRV has clearly signaled that it intends to strengthen this link on economic terms, and perhaps in the long run on political terms as well. End comment.

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